



Department of Insurance
State of Arizona
Financial Affairs Division – Trust Deposit Unit
2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7269
Telephone: (602) 364-2712
Fax: (602) 364-3989

**WACHOVIA BANK, NA
AS CUSTODIAN FOR ARIZONA STATE TREASURER
AND ARIZONA DEPARTMENT OF INSURANCE**

CUSTODY AGREEMENT

This Custody Agreement (the "Agreement"), made as of this ____ day of _____, 20____, among Wachovia Bank, NA, in its capacity as custodian, hereinafter called "Institution", the Arizona State Treasurer, hereinafter called "State Treasurer", the Arizona Department of Insurance, hereinafter called "ADOI", and the _____ (N.A.I.C. Number _____), hereinafter called "Insurance Company", wherein the Institution shall perform safekeeping duties and provide services as described in this Agreement with respect to Eligible Securities held hereunder.

Recitals

- A. In accordance with Arizona Revised Statutes or pursuant to a Security Deposit Agreement between the ADOI and Insurance Company, Insurance Company is required to deliver and maintain a deposit to transact insurance business in the State of Arizona.
- B. Institution desires to provide custodial services with regard to the deposit.
- C. Institution, State Treasurer, ADOI and Insurance Company desire to enter into the following agreement for the provision of custodial services.

Terms

1. **Definitions.** These terms shall have the meanings provided below.

1.1 **Account.** The custodial account established by Institution for Insurance Company to maintain the deposit required by the ADOI.

1.2 **Eligible Securities and Cash.** Eligible Securities are those so qualified by statute, rule, order or other determination of the Director of the ADOI as specifically set forth in Appendix A as may be amended from time to time.

1.3 **Account Value.** At any given time, the Account Value shall be equal to the aggregate of the (a) cash, plus (b) the lesser of the market value, par value or amortized value of each Eligible Security in the Account.

1.4 **Minimum Account Balance.** The initial Minimum Account Balance for the Account shall be \$_____ (_____ Dollars) in cash and/or Eligible Securities. The Minimum Account Balance may be amended by the ADOI at any time by written notice to the Institution and Insurance Company ("MAB Change Notice").

2. **Deposit.** Insurance Company shall deliver and maintain only Eligible Securities or cash in the Account. Insurance Company agrees to maintain an Account Value at least equal to the Minimum Account Balance specified by the ADOI from time to time in accordance with the terms of this Agreement. Institution shall monitor the Account Value and notify the Insurance Company and ADOI if the Account Value falls below the Minimum Account Balance. Further, Insurance Company agrees that for all statutorily required deposits, including workers' compensation deposits, it shall at all times maintain an Account Value at least equal to the deposit amount required under statute.

3. **Maintenance of Minimum Account Balance.** Insurance Company agrees that, by the close of business on the business day after receipt of a MAB Change Notice, it shall deliver to Institution cash or Eligible Securities so that the Account Value is at least equal to the new Minimum Account Balance. No later than the close of business on the second business day following receipt of a MAB Change Notice, Institution shall confirm by facsimile or electronic mail to the ADOI that the Insurance Company's Account Value is at least equal to the new Minimum Account Balance. During the term of this Agreement,

WACHOVIA BANK, NA
AS CUSTODIAN FOR ARIZONA STATE TREASURER
AND ARIZONA DEPARTMENT OF INSURANCE

Institution shall not permit Insurance Company to make any withdrawal, disbursement, exchange, or transfer of Eligible Securities or cash from the Account if the Account Value, after giving effect to such transaction, would be less than the Minimum Account Balance. Institution shall not be responsible for the failure of the Account Value to be at least equal to the Minimum Account Balance solely due to changes in the market value or amortized value of deposited securities during any given business day. However, Institution shall provide written notice by facsimile or electronic mail to the ADOL and Insurance Company by no later than 10:00 a.m. MST on the next business day if, at the close of business on any business day, the Account Value of the Account is less than the Minimum Account Balance.

4. Custodial Services. Institution shall accept for deposit into the Account only cash or Eligible Securities. Institution shall be responsible for monitoring that the Account Value is at least equal to the Minimum Account Balance, and notifying the ADOL and Insurance Company as provided in this Agreement. Institution shall safekeep all property delivered to it, shall identify such property on its books and records as held in trust for the State Treasurer, shall receive the income attributable thereto, and shall hold, invest, disburse or otherwise dispose of such income and principal, or its proceeds, pursuant to the provisions of this Agreement.

4.1 All book-entry securities shall be identified in the Institution's automated and paper records as such. Access to perform safekeeping duties and provide services under this Agreement shall be restricted to authorized Institution personnel only.

4.2 All securities and cash identified or classified by the Insurance Company for the purpose of its workers' compensation deposit shall be so identified and classified in the Institution's automated and paper records in a manner which readily distinguishes such securities from all other securities deposited by the Insurance Company.

4.3 Institution shall identify the full name of Insurance Company, or an abbreviation of Insurance Company name that is acceptable to the ADOL, in its automated and paper records for Insurance Company's account information and shall not change or modify Insurance Company name within its records without prior written approval from the ADOL. The Institution shall refer any written or verbal instruction that it receives from Insurance Company to change or modify Insurance Company's name to the ADOL for authorization prior to making any change or modification.

5. Responsibility for Assets. Institution shall be responsible for losses of or damage to the securities under its care, custody and control or under the care, custody and control of its nominee, its agents or a depository selected by it, including but not limited to any loss of or damage to securities occasioned by the negligence or dishonesty of any officers or employees of Institution, nominee, agents or depository, or burglary, robbery, holdup, theft or mysterious disappearance, including loss by damage or destruction. In the event of loss of or damage to the securities under the care, custody and control of Institution or its nominee, a depository or other agent of Institution, Institution shall, upon demand by Insurance Company, promptly replace such securities with like kind and quality, together with all rights and privileges pertaining to such securities, or, if acceptable to Insurance Company, deliver cash to the custodial account equal to the then fair market value of the securities. Under no circumstances, however, shall Institution be liable for consequential damages under this Agreement for causes beyond its control, which causes shall be war, insurrection, nuclear fission or fusion, radioactivity, seismic activity, earth movement, volcanism, flood, windstorm hurricane, tornado or lightning.

6. Examination by Supervisory Authorities. Institution agrees that at any time upon demand of an examiner contracted or employed by the ADOL, Institution will prepare and deliver to such examiner a written verification of all securities held by Institution as custodian for Insurance Company, including such securities which have been deposited by Institution with a Depository (as hereinafter defined), and such verification shall be signed by an officer of Institution.

7. Investment Services.

7.1 Institution shall have no responsibility to and shall not initiate any investment, reinvestment or divestment of the property held by it under this Agreement, without direction from Insurance Company except as otherwise provided in this Agreement. Any charges by the Institution with respect to investment services shall be at the prices listed in Appendix B hereto.

7.2 Except as provided in Section 7.3 or 18, Insurance Company may withdraw and exchange Eligible Securities or cash from the Account, from time to time so long as the Account Value, after giving

WACHOVIA BANK, NA
AS CUSTODIAN FOR ARIZONA STATE TREASURER
AND ARIZONA DEPARTMENT OF INSURANCE

effect to withdrawal or exchange, does not fall below the greater of the Minimum Account Balance or the amount of deposit required by statute.

7.3 Except as provided in Section 18, so long as Account Value is at least equal to the Minimum Account Balance, Institution may disburse interest coupon payments, principal paydowns, cash from maturities on securities in its custody, or any other income or proceeds received by it on securities held in Account.

7.4 All sales, purchases, exchanges or other transactions respecting securities or other property which may be made by Institution for the account of Insurance Company shall be made only pursuant to instructions from Insurance Company or of Insurance Company's designated representative, and in accordance with the conditions set forth in this Agreement. In the absence of such instructions, Institution shall have no responsibility for the investment or reinvestment of such property nor liability for any omission to act in the absence of instructions.

7.5 If an acquisition initiated by Insurance Company results in a debit balance at settlement of such transaction, Institution shall be entitled to charge interest on such debit balance.

7.6 Insurance Company, and not Institution, shall be responsible for all money, securities and/or other property delivered to any broker or other person specified by Insurance Company in such manner as Insurance Company may direct.

7.7 Institution's duties hereunder shall continue until such time as such duties shall terminate as hereinafter provided or until such time as such duties shall be altered in writing, and executed by the Insurance Company, State Treasurer, the ADOI, and consented to by Institution.

8. Capital Changes. It shall be the responsibility of Insurance Company to furnish Institution with notification of the declaration, record and payment dates of any dividends or other distributions and of any calls or other capital changes or of information requiring special action concerning each of the securities subject to this Agreement whenever such information is not readily available from reporting services or publications generally accepted and utilized by the securities industry. No knowledge of the above described securities information shall be imputed to the Institution prior to the time it assumed custodial responsibility for any security.

9. Depository. Institution may utilize the services of the Federal Reserve Institution or any depository (hereinafter called "Depository"), which is now or hereinafter approved by the Director of the ADOI for the purpose of book-entry deposit and maintenance in Depository of all securities eligible under applicable laws, regulation, and rulings except as limited by written instructions from Insurance Company or the ADOI to Institution. Institution may authorize Depository to hold the deposited securities, to receive the income and principal becoming due thereon, to surrender for payment maturing obligations and those called for redemption and to disburse and/or otherwise dispose of said deposited securities and the income thereof upon and pursuant to a written order by Insurance Company. Any income received from the surrender of coupons for payment will be credited as directed by Insurance Company. The Federal Reserve Institution of San Francisco at Los Angeles may be used to hold securities of federal agencies that are available only through the Book Entry System of said Federal Reserve Institution.

10. Nominee Authorized. Institution is directed to transfer into the name of nominees selected by it, all registered securities from time to time held under this Agreement. Institution shall issue written notice to the ADOI of any transfer of registered securities into the name of Institution's nominee. Institution shall be responsible for the acts of its nominee with respect to such securities.

To effect the transfer of registered securities into the name of Institution's nominee, to facilitate the collection of any payment thereon and to effect any other action in relation thereto or in order to meet any requirement thereof, Insurance Company authorizes Institution to execute in Insurance Company's name, and to deliver, any instrument determined by Institution to be appropriate in furtherance of the purposes hereof, and to guarantee in Institution's name as the signature of Insurance Company any signature so placed on such instrument.

Institution will not permit book entry securities or securities issued or issuable in bearer form to be transferred to a Depository without having received prior written approval from the ADOI. Securities issued or issuable in bearer form which are held by Institution or transferred to a Depository shall be

WACHOVIA BANK, NA
AS CUSTODIAN FOR ARIZONA STATE TREASURER
AND ARIZONA DEPARTMENT OF INSURANCE

maintained in bearer form and not registered in the name of Institution's nominee or the Depository's nominee unless at the specific written request of Insurance Company.

11. Directions to Institution. All directions to the Institution from the ADOI or Insurance Company shall be in writing and signed by the designated representatives of Insurance Company or the authorized personnel of the ADOI, as appropriate. Notwithstanding Section 22 hereunder and unless Institution is otherwise notified by the ADOI, directions from Insurance Company or the ADOI relating to account transactions may be transmitted to the Institution by facsimile and will be deemed received upon receipt by the Institution. Institution shall not be required to comply with any direction, which in its judgment may subject it to liability or expense, or to prosecute or defend any action, unless indemnified in manner and amount satisfactory to it.

12. Proxies. Institution shall not vote proxies. All proxies shall be forwarded to Insurance Company.

13. Statements and Reports. Institution shall furnish periodic statements in a form acceptable to the ADOI for accounts of this type and shall deliver the same to Insurance Company or to any representative designated by Insurance Company. Institution shall furnish monthly reports in a form acceptable to the ADOI and the State Treasurer within 5 working days following each month end, which itemizes all account activity with detailed descriptions and classifications of securities and cash held hereunder according to the ADOI's instructions. Institution shall separately furnish, in a form acceptable to the ADOI, monthly reports itemizing all cash deposited into a companion account, such as a short-term money market funds account as a result of maturities, interest coupon payments or principal fund paydowns of Insurance Company's securities held hereunder.

14. PC-Based Data System. Institution shall provide secure Internet access or a PC-based data system software to State Treasurer and the ADOI that is compatible with the PC-based data systems of each to receive daily updated information regarding any changes in securities pledged pursuant to this Agreement. The PC-based data system shall include read and print options in menus that enable query by Insurance Company name or account number, and cusip numbers. The data system shall be compatible to common PC database and word processing software to enable State Treasurer and the ADOI to download and utilize Insurance Company's current account data. The timeliness of information in the Institution's PC-based data system shall be no less than transactions performed on the previous business day. At any time that Institution's PC-based data system is unavailable to the ADOI for any reason, Institution shall deliver by facsimile transmission, a detailed report of all transactions performed upon Insurance Company Accounts for the business day when the data system was not available, by the close of the next business day, when so requested by ADOI. In addition, Institution shall provide specific account information requested by the ADOI by the close of the next business day by facsimile transmission or telephonically. Electronic and written notification provided by the Institution to the ADOI shall clearly specify the type(s) of services and transaction(s) completed, such as release or distribution, receipt or deposit, maturity of a security to cash funds, or a principal funds paydown and shall include the cusip numbers of all affected securities.

15. Termination of Agreement. Upon termination and written direction of the ADOI and State Treasurer, Institution shall transfer the property then held in the account for Insurance Company and Institution shall effect transfer of securities deposited by it on behalf of Insurance Company with the Depository to the new custodian, along with all records pertaining to the securities (with a copy of the records to Insurance Company). Upon termination, Insurance Company shall pay all sums due Institution and shall indemnify Institution in the manner and amount satisfactory to it against all liability incurred in the performance of this Agreement.

16. Compensation. Except as hereafter provided, Institution shall be compensated for its services by Insurance Company in accordance with the charges set forth in Appendix B hereto. All charges including but not limited to, brokers' commissions resulting from security transactions and all security settlements and deliveries shall be paid by Insurance Company.

The compensation or expenses charged by Institution for the services rendered under this Agreement shall not be charged to the assets held under this Agreement. However, so long as the Minimum Account Balance is maintained, Institution shall have the right to reduce income generated from such assets for funds that Institution has advanced or for fees owed to the Institution in order to effect the purchase of securities in accordance with the directions of Insurance Company. Under no circumstances shall Institution have the right to reduce, offset or encumber such assets with out-of-pocket costs or expenses

WACHOVIA BANK, NA
AS CUSTODIAN FOR ARIZONA STATE TREASURER
AND ARIZONA DEPARTMENT OF INSURANCE

incurred by it in effecting the sale of securities in accordance with the directions of Insurance Company. Notwithstanding the foregoing, so long as the Minimum Account Balance is maintained, Institution may reduce income generated from such assets for out-of-pocket costs or expenses incurred by it in effecting the purchase or sale of securities in accordance with the direction of Insurance Company, upon written authorization of Insurance Company subsequent to receipt by Insurance Company of an invoice itemizing the specific out-of-pocket costs or expenses incurred by the Institution.

17. Failure to Perform. Institution agrees to perform its safekeeping duties and related services described in this Agreement in accordance with prescribed time frames. Failure to act upon Insurance Company's, or as applicable, the ADOL's, proper and complete instructions shall constitute a failure by Institution to perform in accordance with this Agreement. The ADOL shall report and document to the State Treasurer all incidents of Institution's failure to perform. The State Treasurer shall, upon recommendation and advisement from the ADOL, determine and impose remedial actions appropriate to the frequency and types of incidents reported by the ADOL. Remedial actions instructed by the State Treasurer to the Institution may include a refund or abatement of fees, out-of-pocket costs and expenses charged to Insurance Company by the Institution in the course of a transaction that constituted an incident of the Institution's failure to perform, and reimbursement of a monetary loss experienced and documented by Insurance Company as a direct result of an incident of Institution's failure to perform.

18. Cessation of Distributions from Account. In the event Insurance Company is placed into receivership or similar proceedings, Insurance Company agrees that upon written instructions from the ADOL to Institution, Institution will not distribute any Eligible Securities, income, interest, proceeds or cash balances to Insurance Company and will hold all income, interest and cash balances, net of Institution's fees. Insurance Company may continue to exchange Eligible Securities or cash in the Account with other Eligible Securities.

19. Citation Amendments. Any amendment to or repeal of any statute, rule or form cited above occurring during the term of this Agreement is incorporated herein by this reference.

20. Designated Representatives. Insurance Company may provide written notice of its designated representatives who are authorized to act on its behalf in all matters concerning assets to be held in its account under this Agreement, in a manner acceptable to the Institution. Written notice shall be signed by an officer of Insurance Company who is duly authorized within its bylaws or an authorizing resolution of the board of directors of Insurance Company which has been certified by its corporate secretary and shall remain in effect until superseded by a subsequent written notice of designated representatives or by a written notice of termination for designations previously authorized. A designated representative may act in all matters and be responsible for the duties of Insurance Company under this Agreement.

21. Cancellation. This agreement is subject to cancellation at any time by the Governor pursuant to A.R.S. § 38-511.

22. Notices. Except as otherwise provided herein, any notices required or permitted to be made hereunder shall be delivered personally or by facsimile or by overnight courier or mailed by certified or express mail, return receipt requested, to the following addresses and shall be deemed to have been received when delivered personally, upon telephonic confirmation of receipt of the facsimile, one business day after delivery to overnight courier, or three business days after mailing:

**WACHOVIA BANK, NA
AS CUSTODIAN FOR ARIZONA STATE TREASURER
AND ARIZONA DEPARTMENT OF INSURANCE**

If to Insurance Company: _____

If to the Institution: Wachovia Bank, NA
Insurance Commissioner Services, State of Arizona
One West Fourth Street
Mail Code NC6252
Winston-Salem, North Carolina 27101
1-877-877-2143 (option 4) Facsimile 336-747-8965
Email: tammy.kinney@wachovia.com

If to the State Treasurer: Mr. E. Blaine Vance, Deputy State Treasurer
Office of the State Treasurer
1700 W. Washington
Phoenix, Arizona 85007
602-604-7808 Facsimile 602-542-7176
Email: ebv@treasury.state.az.us

If to the ADOL: Mr. Steven Ferguson, Assistant Director
Arizona Department of Insurance
2910 N. 44th Street, Suite 210
Phoenix, Arizona 85018
602-364-3999 Facsimile 602-364-3989
Email: sferguson@id.state.az.us

IN WITNESS WHEREOF, the parties hereto have caused the Agreement to be executed as of the date first written above.

INSURANCE COMPANY

By: _____
Name: _____
Title: _____
Federal Tax ID Number: _____

ARIZONA STATE TREASURER

By: _____
Name: E. Blaine Vance
Title: Deputy State Treasurer

ARIZONA DEPARTMENT OF INSURANCE

By: _____
Name: Steven Ferguson
Title: Assistant Director, Financial Affairs Division

INSTITUTION

By: _____
Name: _____
Title: _____

**WACHOVIA BANK, NA
AS CUSTODIAN FOR ARIZONA STATE TREASURER
AND ARIZONA DEPARTMENT OF INSURANCE**

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CONTACT THE TRUST DEPOSIT UNIT AT (602) 364-2712
FOR THE APPLICABLE APPENDIX A, PAGE 7
FOR YOUR NEW ACCOUNT**

**WACHOVIA BANK, NA
AS CUSTODIAN FOR ARIZONA STATE TREASURER
AND ARIZONA DEPARTMENT OF INSURANCE**

**APPENDIX B
FEE SCHEDULE
Effective March 1, 2004**

ANNUAL SCHEDULE OF FEES				
ANNUAL SERVICES	FEE	PER OCCURRENCE SERVICES	FEE	
Accounts: Administrative	\$360.00	Security Transactions	Book Entry	Physical
Online Usage	No Charge		\$30.00	\$50.00
Monthly Statements versus Quarterly	\$120.00	Cash Distributions (Check/ACH)	N/C	
Holding (per security/asset) (Non-Wachovia US Treas. Money Market)	Book Entry / Physical \$30.00 / \$50.00	Wire Transfers	\$22.50	
		Check Stop-Payments	\$20.00	
		Income Collection (Non-Wachovia US Treas. Money Market)	N/C	
		Certification of Deposit / Audit-Confirmation	\$25.00	
		Account Mergers	\$100.00	
For all inquiries and research of information prior to the current 6-month period, a special handling fee of \$50.00 per hour will be charged.				

Late Payment Charge: Payment is due within 45 days from the date of mailing. Failure to submit payment within 45 days will result in a Late Payment Charge of \$20.00. Upon authorization from the Director, Wachovia will debit the outstanding fee amount plus Late Payment Charge from the collateral deposit account.

Further information regarding these services, fees and charges may be obtained by calling Wachovia Bank, NA at 1-877-877-2143 option 4